Bloomberg News

Mortgage Refinancing to Be Slower Than Rates Show, Analysts Say

By Jody Shenn

Jan. 23 (Bloomberg) -- Refinancings on almost $2.5 trillion of fixed-rate mortgages underlying securities backed by Fannie Mae or Freddie Mac may be less dramatic than investors assume, according to analysts at UBS AG, Barclays Capital Inc. and Citigroup Inc.

Borrowers may have a hard time getting a new mortgage as lenders apply tougher standards, according to UBS analysts, and more borrowers took out loans with minimal down payments than in the past. Also, opportunities to tap equity through refinancing are reduced as home prices fall.

``The current refi wave should be far smaller in size and scope, given a weak housing market and credit tightening,'' New York-based Barclays analysts led by Ajay Rajadhyaksha wrote yesterday.

Declines in typical mortgage rates to the lowest since mid- 2004 have left two thirds of the home-loan balances carrying rates at least 0.2 percentage point above what homeowners might get by refinancing, according to a report yesterday by UBS analysts in New York led by Laurie Goodman.

Prepayment speeds in aggregate should reach levels that erase less than 20 percent of the bonds in a year, compared with estimates of 35 percent to 40 percent if issues related to the current mortgage and housing environments aren't considered, according to the UBS analysts.

Citigroup analyst Brett Rose in New York wrote in a report yesterday that he expects a more ``muted'' effect on refinancing levels from the credit crunch than other analysts.

To contact the reporter on this story: Jody Shenn in New York at jshenn@bloomberg.net
.

Last Updated: January 23, 2008 10:52 EST